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**Commentary**

**Realpolitik for Microcredit in Developing Countries**

By [Scott Shane](http://www.businessweek.com/authors/2250-scott-shane) July 25, 2012



Photograph by Andrea Kuenzig/laif/Redux

Subira Abdi (right), 38, has a micro finance project, and also has a hairdresser shop in Mzumbe, Tanzania.

Amid the more than 11,000 bills and resolutions languishing before a [do-nothing Congress](http://www.businessweek.com/articles/2012-07-19/the-doing-a-lot-of-nothing-congress), one recently caught my eye for its potential to appeal to both sides of the aisle. The [Microenterprise Empowerment and Job Creation Act of 2011](http://www.govtrack.us/congress/bills/112/hr2524/text) is meant to help entrepreneurs in developing countries running tiny businesses that have limited access to credit. Introduced by Representative Christopher Smith (R-N.J.) with 20 Democratic co-sponsors, the bill has languished in committee for a year.

The bill would reauthorize earlier legislation and appropriate $265 million annually through 2016 to support aid programs in developing countries, including microloans (which are generally less than $150) and training for poor entrepreneurs. It would mandate that half the funds go to the very poor—people living on $1.25 per day or less. Supporters of the legislation, such as nonprofits Results.org and Care, [argue](http://www.results.org/uploads/files/fact_sheet_on_smith-rush_microfinance_bill-hr_2524.pdf) (pdf) that the bill makes sense because it would improve the lives of the poor in developing countries.

Even though I support the legislation, I’m doubtful it will have the effect those groups envision. Microcredit has a spotty record at improving the incomes of poor entrepreneurs, as Richard Rosenberg, a senior adviser at Consultative Group to Assist the Poor, an independent policy research center, has [explained](http://www.cgap.org/gm/document-1.9.41443/FN59.pdf) (pdf). Randomized experiments fail to show consistently that microcredit improves the incomes of poor entrepreneurs, according to [research](http://www.openforum.com/idea-hub/topics/money/article/is-microcredit-the-right-way-to-help-the-poor-1) I’ve highlighted before. Factor in the opportunity cost of not spending the money allocated to microcredit on other ways that help the poor—like supplying clean drinking water or providing health care—and the appeal of small loans diminishes.

[Story: A Microfinance 'Heretic' on How to Fix the Industry](http://www.businessweek.com/articles/2012-07-10/a-microfinance-heretic-on-how-to-fix-the-industry)

But helping the poor in other countries shouldn’t be why we fund microcredit programs in developing countries. Harsh as it sounds, the U.S. government isn’t a philanthropy; its purpose isn’t to pull the world’s poor out of poverty but to promote our nation’s foreign policy goals (among others). And that’s why the law should be passed. Call it realpolitik for microloans.

As *New York Times* columnist Nicholas Kristoff has [argued](http://www.nytimes.com/2010/11/14/opinion/14kristof.html), microlenders such as the Kashf Foundation in Pakistan are an effective tool for combating terrorism. Put simply, people who are building businesses see better alternatives for their time than promoting terror.

Moreover, Ananya Roy, a professor of city and regional planning at the University of California at Berkeley, [intimates](http://www.worldfinancialreview.com/?p=401) in a *World Financial Review* article that the U.S. needs to provide microcredit to the poor in developing countries because our enemies do. Hezbollah, Roy writes, is the biggest microlender in the Middle East. If we want to the poor to support our allies rather than Hezbollah’s allies, we need to give them concrete reasons to do so.

[Video: Diageo Targets Africa's Independent Women](http://www.businessweek.com/videos/2012-06-13/diageo-targets-africas-independent-women)

Poverty leads to civil strife, which often threatens our national interests. It’s a whole lot cheaper to give people a financial incentive to maintain order and a free market system than to send in the troops. And given the problems of corruption in developing countries, bottom-up programs do more to persuade people to support America than top-down economic aid, which often ends up lining the pockets of the elite.

Again, Congress needn’t pass the bill for the noble reasons that most supporters argue. Our leaders’ job is to ensure our interests here and abroad. That’s why Congress should put aside the political posturing and reach across the aisle long enough to pass this law.



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